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SUBJECT: KAZAKHSTAN: KAZATOMPROM PLAYS LEAD ROLE IN COUNTRY'S  
URANIUM PRODUCTION AMBITIONS

REF: (A) 06 ALMATY 2673 (B) ASTANA 2126

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11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY. Kazakhstan has more than one million tons of uranium reserves, 15% of the world's total and the largest reserves after Australia. The country is currently the world's third largest uranium producer after Canada and Australia, with ambitions to move up in rank. Kazatomprom, Kazakhstan's state-owned nuclear company, plays a lead role in fulfilling this ambitions. The company has a variety of operations and subsidiaries, as well as a number of international joint ventures, including ones with enterprises from Canada, Japan, Russia, and China. On November 6, Kazatomprom lowered its uranium production plans from 9,000 tons to 8,700 tons in 2008, and from 12,000 tons to 11,000 tons in 2009, due to reduced demand resulting from the global economic crisis. END SUMMARY.

#### KAZATOMPROM OPERATIONS AND SUBSIDIARIES

13. (SBU) Established in 1997, Kazatomprom is Kazakhstan's national nuclear company, with responsibility for production, processing, and export of uranium and its compounds, rare metals, and nuclear fuel for nuclear power plants. The company's main activities are geological exploration, uranium production, nuclear fuel manufacturing, non-ferrous metallurgy, and construction material production. Kazatomprom employs more than 25,000 persons and is among the world's leading uranium production companies. On October 13, the Ministry of Energy and Mineral Resources transferred its 100 percent ownership stake in Kazatomprom to the Samruk-Kazyna National Welfare Fund.

14. (SBU) Kazatomprom seeks to become a vertically integrated transnational corporation managing the full nuclear fuel cycle, including uranium mining, gas processing, isotopic enrichment, fuel

pellet and fuel assembly production, and construction of nuclear power plants. At the moment, Kazatomprom only has the technical capability to mine uranium ore and fabricate fuel pellets. It lacks the technology and expertise for isotopic enrichment, fuel assembly, and nuclear power plant construction.

15. (SBU) Kazatomprom is comprised of four mining groups -- Northern, Western, Eastern, and Southern -- operated by Kazatomprom Mining Company or via a series of joint ventures: Ulba Metallurgical Plant (90% ownership stake), MAEK-Kazatomprom, Volkovgeology (90%), and Stepnogorsk Mining and Chemical Plant. Kazatomprom also manages the Geotechnology Training Center, the Institute of High Technologies, the Kazakh Nuclear University, and KazAtomProm-Demeu.

16. (SBU) The Northern or Stepnoye mining group began operations in 1978 and has uranium reserves of 750,000 tons from mines in Uvanas, East Mynkuduk, Akdala, and Inkai, with additional production expected from the Central and Western Mynkuduk, South Inkai, Budenovskoye, and Zhalspak mines. The Western mining group, operational since 1985, has 180,000 tons of uranium reserves in its North and South Karamurun mines, with future production expected from Irkol and Kharasan. The Eastern or Tsentralnoye mining group, established in 1982, has 140,000 tons of uranium reserves from the Moinkum, Southern Moinkum, Kanzhugan, and Tortkuduk mines. The Southern mining group owns the Zarechnoye mine, with 70,000 tons of uranium reserves.

17. (SBU) The Ulba Metallurgical Plant, commissioned in 1949, processes waste materials containing uranium (scraps and ashes), including 27% U-235, supplied to the United States as uranium dioxide powder, and 5% U-235 fuel pellets, supplied to Russia. Ulba also manufactures products containing tantalum, niobium, and beryllium. It is the world's largest processor of uranium products, second largest processor of beryllium products, and third largest

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processor of tantalum and niobium products.

18. (SBU) MAEK-Kazatomprom supplies heat, electricity, and water to Mangistau oblast from three gas-fired power plants. It also manages a Caspian Sea water desalination plant and the BN-350 plutonium breeder reactor. (NOTE: The BN-350 reactor has been shut down and decommissioned. END NOTE.)

19. (SBU) The Stepnogorsk Mining and Chemical Plant, which Kazatomprom acquired in 2007, produces complex ore products and sulfuric acid. Volkovgeology was established in Almaty in 1948 and conducts geological surveys and drilling operations for in-situ leaching facilities. Geotechnology is the Kazakhstan-Kyrgyz regional training center established in 2002 to train KAP employees on its in situ leaching method and maintenance and radiological protection. Kazatomprom-Demeu carries out social infrastructure development projects for its employees.

#### KAZATOMPROM JOINT VENTURES WITH CANADA

110. (SBU) Kazatomprom has two joint ventures with Canada's Cameco, the world's largest uranium producer. Inkai, established in 1999 by Kazatomprom (40% ownership stake) and Cameco (60%), constructed a full-scale in situ leaching mine and mill at Inkai sites 1 and 2 of the Northern mining group. On June 11, 2008, Kazatomprom (51% ownership) and Cameco (49%) established Ulba Conversion at the Ulba Metallurgical Plant, with an annual capacity of 12,000 tons of uranium hexafluoride (UF<sub>6</sub>), representing 17% of world conversion capacities.

111. (SBU) The Betpak Dala joint venture of Kazatomprom (30% ownership) and Canada's Uranium One (70%) owns the South Inkai (with 24,000 tons of uranium in inferred resources) and Akdala (with 9,500 tons of proven and probable reserves) uranium mines of the Northern mining group. Pilot production from South Inkai commenced in October 2007. Akdala currently produces 1,000 tons of uranium a year. Uranium One also holds a 30% stake in the Kyzylkum joint venture developing the Kharasan project.

## KAZATOMRPOM JOINT VENTURES WITH FRANCE

¶12. (SBU) Katco, a joint venture of Kazatomprom (49% ownership) and French nuclear manufacturer Areva (51%), is developing the Moinkum sites 1 and 2 of the Eastern mining group. On June 11, Kazatomprom and Areva signed an agreement to produce 4,000 tons of uranium a year through 2039, with Areva securing marketing and sales rights. In exchange, Areva will provide technical support for the production of 1,200 tons of fuel a year at the Ulba Metallurgical Plant. The construction of a new fuel assembly plant capable of producing 400 tons of nuclear fuel for French-designed reactors will begin in 2009 and be completed by 2012, with initial product available in 2013.

## KAZATOMPROM COOPERATION WITH JAPAN

¶13. (SBU) Kazatomprom has signed several partnership agreements with Japanese companies. Many of these deals were secured during the April 2007 visit to Astana of Japanese Minister of Economy, Trade, and Industry Akira Amari and the May 2008 visit to Tokyo of Kazakhstani Minister of Energy and Mineral Resources Sauat Mynbayev.

Amari believes that as a result of these agreements, by 2017, Japan's uranium imports from Kazakhstan will rise from 1% to 30-40% of Japan's total import volumes, to reach approximately 4,000 tons of uranium annually.

¶14. (U) On June 20, Toshiba announced its intention to sign a partnership agreement with Kazatomprom to develop rare metals, such as tantalum and hafnium, which are used in products ranging from consumer electronics to nuclear power plants. Securing a stable supply of such raw materials is essential for Toshiba's

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semiconductor manufacturing and nuclear power business. (NOTE: On October 18, 2007, Kazatomprom purchased 10% of Westinghouse Electric Company from Toshiba for \$540 million. END NOTE).

¶15. (SBU) On June 3, the APPAK joint venture, owned by Kazatomprom (65% stake), Sumitomo Corporation (25%), and the Kansai Electric Power Co. (10%), opened its first in-situ leaching mine at Western Mynkuduk of the Northern mining group. APPAK plans to produce 600 tons of natural uranium in 2009 and 1,000 tons per year beginning in ¶2010. The expected exploitation period of Western Mynkuduk is 22 years, with total output of uranium expected to be 18,000 tons. Itochu Corporation has a 10-year purchase agreement with APPAK for 3,000 tons of uranium.

¶16. (SBU) A Japanese consortium of Marubeni Corporation, Tokyo Electric Power Company, Chubu Electric Power Company (10%), and Tohoku Electric Power Company holds a 40% stake in the Kyzylkum joint venture, the other owners of which are Kazatomprom (30%) and Uranium One (30%). The same consortium also owns 40% of the Baiken-U joint venture, with Kazatomprom holding the remaining 60% stake. Kyzylkum and Baiken-U operate the Kharasan-1 and Kharasan-2 mines respectively, which comprise the Kazatomprom Western mining group. The Kharasan-1 mine, with an annual designed capacity of 3,000 tons of uranium, is expected to open at the end of 2008, and Kharasan-2, with 2,000-ton capacity, is expected to open in 2009. The uranium reserves of both Kharasan blocks are estimated at 160,000 tons and annual production capacity is expected to reach 5,000 tons by 2014.

¶17. (SBU) In 2007, Kazatomprom signed a deal with the Kansai Electric Power Co., Sumitomo Corporation, and Tokyo-based Nuclear Fuel Industries Ltd., under which the Ulba Metallurgical Plant produces fuel pellets for Kansai's power plants. Initial production will be 20 tons in 2009. The Japanese companies have pledged to invest in the development of new uranium deposits and modernization of the Ulba Metallurgical Plant to produce fuel pellets and other value-added products.

## KAZATOMPROM DEALS WITH CHINA

¶18. (SBU) In 2004, the Ulba Metallurgical Plant established Ulba-China in the free economic zone of Vayagaochao, Shanghai, to sell beryllium products to China and Southeast Asia. Ulba-China has an agreement with Shui Kou Shan, a major Chinese producer of metal

beryllium and copper beryllium alloy, for sales of aluminum-beryllium alloys.

¶19. (SBU) In October 2007, the Ulba Metallurgical Plant (50% ownership) and Ningbo Xingye Electronic Copper Strip Co. (50%) establish Yingtan Ulba Shine Metal Materials Co. to manufacture beryllium bronze in southern China.

¶20. (SBU) In May 2007, Kazatomprom and China Guandong Nuclear Power Company (CGNPC) signed an agreement under which the Ulba Metallurgical Plant would produce fuel pellets and powders for China's nuclear power plants. Beginning in 2009, Kazatomprom is expected to supply as much as 50% of China's nuclear fuel. On November 6, Kazatomprom President Mukhtar Dzhakishev announced plans to partner with CGNPC and the China National Nuclear Corporation. Their agreement includes long-term supplies of natural uranium for the requirements of the nuclear power industry in China, development of uranium deposits on the territory of Kazakhstan (jointly with Chinese partners), fabrication of fuel for Chinese nuclear power plants, and construction of nuclear power plants in China. "Kazatomprom is the first company to gain access to the closed fuel market of China", Dzhakishev stressed.

#### KAZATOMPROM JOINT VENTURES WITH RUSSIA

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¶21. (SBU) In October 2006, Kazatomprom signed three joint venture agreements with Russia: (1) Akbastau, with Techsnabexport (TENEX), to explore and mine uranium at Budenovskoye mines 1, 3, and 4 of the Northern mining group; (2) the International Uranium Enrichment Center in Angarsk, with TENEX holding a 90 percent stake and Kazatomprom 10%, to enrich 6,000 tons of uranium mined in Kazakhstan and produce uranium products starting in 2011; and (3) Atomic Stations, with Atomstroyexport, to build small and medium-size nuclear reactors (up to 300 megawatts), designed by Russia's Afrikantov Research and Development Bureau. All of these projects are still in the early stages of development.

¶22. (SBU) The Zarechnoye joint venture -- owned by Kazatomprom (49.33% ownership), Atomredmetzoloto (0.67%), a subsidiary of Russia's state-controlled atomic monopoly Rosatom, TENEX (49.33%), and Kyrgyzstan's Kara Balta Mill (0.67%) -- is developing the Zarechnoye uranium field of the Southern mining group, which has 19,000 tons of uranium reserves and expects to produce 1,000 tons of uranium in 2008. The Karatau joint venture of Kazatomprom (50% ownership) and Atomredmetzoloto (50%) is developing the Budenovskoye-2 mine of the Northern mining group, which has a design capacity of 1,000 tons a year.

¶23. (SBU) The UKR-TVS joint venture of Kazatomprom (33.33% ownership), Russia's TVEL (33.33%), and the Ukrainian State Property Fund (33.33%), was set up in 2001 to mine uranium in Kazakhstan, process it in Russia, manufacture fuel pellets in Kazakhstan, and then supply nuclear fuel to Ukrainian nuclear power reactors.

#### LOWERED URANIUM PRODUCTION TARGETS

¶24. (SBU) On November 6, Kazatomprom lowered its uranium production plans from 9,000 tons to 8,700 tons in 2008, and from 12,000 tons to 11,000 tons in 2009. (NOTE: Kazakhstan produced 6,637 tons of uranium in 2007. END NOTE.) Kazatomprom President Mukhtar Dzhakishev said the lower production targets were in response to reduced market demand due to the global economic crisis, but he insisted that financing for ongoing projects would not be an issue. "None of our partners have indicated any anxiety about our future plans or said they want to change their investment position," he maintained. Dzhakishev also noted that Kazatomprom could always obtain project financing from Samruk-Kazyna, should that be necessary. (NOTE: Previously, in May, Fitch upgraded Kazatomprom's long-term rating to BBB minus from BB plus and short-term rating to F3 from B to acknowledge the company's strong financial profile and strong position in the world uranium market, and uranium production that fully met market expectations. END NOTE.)

¶25. (U) COMMENT: Kazatomprom's uranium production this year been

limited by a deficit of sulfuric acid for on-site uranium processing and future production could be adversely affected by declining market demand. Although Kazatomprom has high capital costs, the company's performance has been sound and its balance sheet is strong. The recent decision of the government to move ownership of Kazatomprom to the newly-established Samruk-Kazyna National Welfare Fund and Samruk-Kazyna's recommendation that President Nazarbayev's son-in-law Timur Kulibayev (who is Deputy Chairman of Samruk-Kazyna's Management Board) be named Chairman of Kazatomprom's outside Board of Directors are indicators of the strategic importance the Kazakhstani leadership attaches to the development of Kazakhstan's civilian nuclear industry. END COMMENT.

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